

TENNESSEE REGULATORY AUTHORITY



03-04 Annual Report

Promoting the Public Interest for the Future
Electric . Gas . Telecommunications . Water

For the period July 1, 2003 to June, 30, 2004

www.state.tn.us/tra

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TENNESSEE REGULATORY AUTHORITY

Pat Miller, Chairman
Deborah Taylor Tate, Director
Sara Kyle, Director
Ron Jones, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

February 2005

The Honorable Phil Bredesen
Governor, State of Tennessee

The Honorable John S. Wilder
Lt. Governor

The Honorable Jimmy Naifeh
Speaker of the House of Representatives

Members of the General Assembly

It is with great pleasure that we present to you the Annual Report of the Tennessee Regulatory Authority for Fiscal Year 2003-2004. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-211.

As we embark upon another year of service on behalf of the state of Tennessee, we do so always mindful of the significant purpose for which the TRA was established by the General Assembly.

Please contact us if we can provide you or your constituents with information about the scope of our duties, assistance with utility complaints, or to learn more about our consumer assistance programs. We thank you and appreciate your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Miller", written over a large, stylized "P" that extends upwards.

Pat Miller, Chairman

INTRODUCTION TO THE TENNESSEE REGULATORY AUTHORITY



L to R: Director Ron Jones, Chairman Pat Miller, Director Sara Kyle and Director Deborah Taylor Tate.



In 1995, the General Assembly passed legislation to create the Tennessee Regulatory Authority (Authority), a governing body to regulate utilities in the state of Tennessee. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

Leadership of the Authority is comprised of four Directors, each of whom is appointed to serve a six-year term. Chairman Pat Miller is the appointee of the Lt. Governor; Director Deborah Taylor Tate is the appointee of the Governor; Director Sara Kyle is the appointee of the Speaker of the House; and Director Ron Jones is the joint appointee of the Governor, the Lt. Governor and Speaker of the House. The Chairmanship will rotate every year among the directors for the duration of their terms.

INTRODUCTION

OUR MISSION

The mission of the Tennessee Regulatory Authority is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

This mission is fulfilled through the functions of economic regulation, regulatory oversight, service regulation and consumer assistance.

Economic Regulation — The Authority provides an accessible and efficient regulatory process that is fair and unbiased. We ensure that the regulatory process results in fair and reasonable rates while offering rate-based regulated utilities an opportunity to earn a fair return on their investments.

Regulatory Oversight — The Authority provides appropriate and necessary regulatory oversight to protect consumers and facilitate the development of fair and effective competition in the provision of telecommunications services.

Service Regulation and Consumer Assistance — The Authority protects and educates the public in the changing environment of competition among utilities by becoming a consumer service focused agency. We also inform utility consumers regarding utility matters and expedite the resolution of disputes between consumers and utilities.

OUR PHILOSOPHY

To function with the highest degree of ethics, serving before the public with accountability and openness. To carry out our regulatory duties with diligence, while operating in a competent, effective, and efficient manner. In serving the public, we will balance the interests of consumers, regulated entities, and others, while maintaining a standard of excellence. This is accomplished by remaining technically up-to-date, utilizing modern state-of-the-art communications tools, computer systems and equipment, which allow for the responsive and accurate processing of consumer information, regulatory data, industry audits, inspection results, and requests for service.

TRA ON THE INTERNET

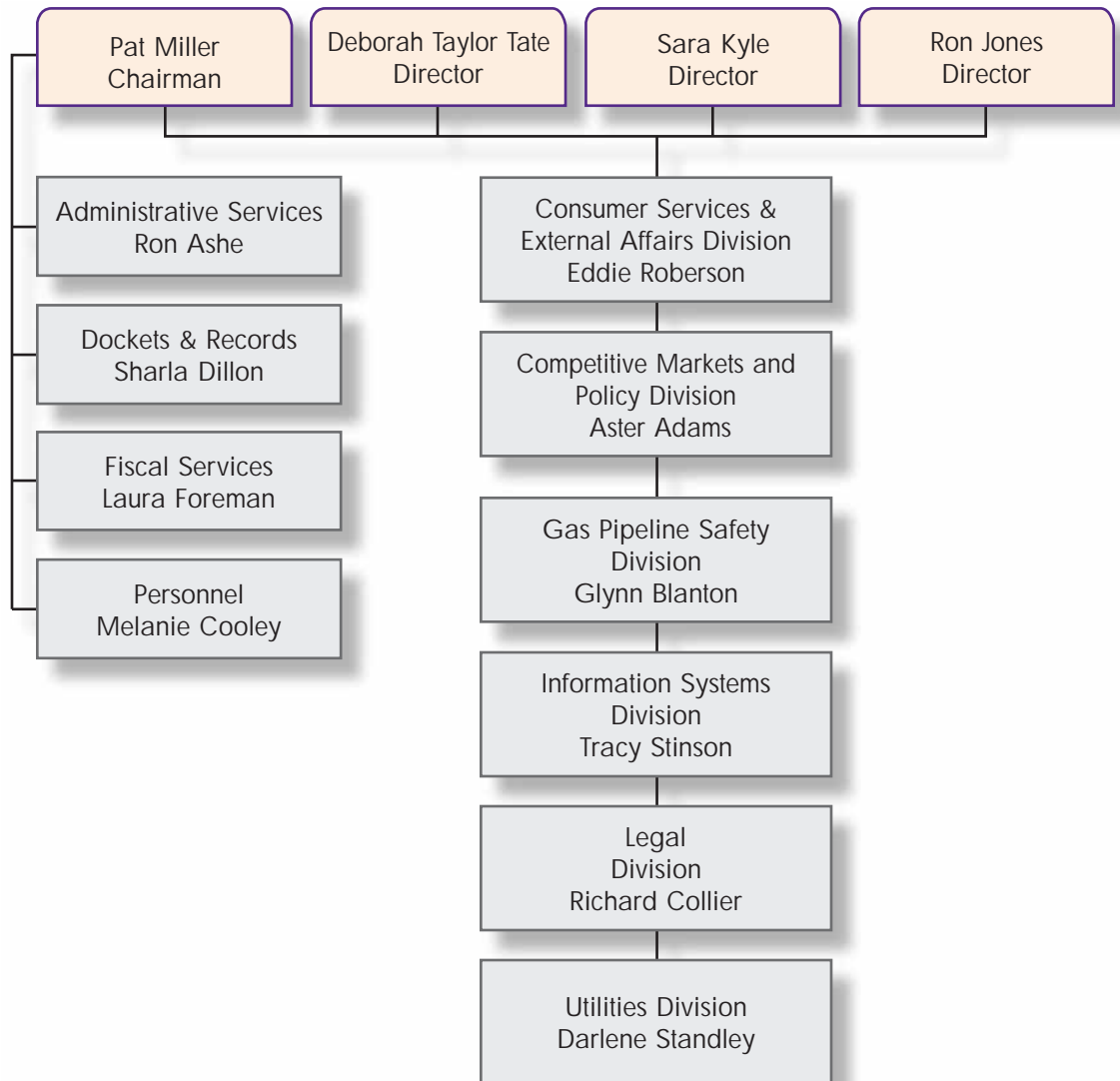
Information about the Tennessee Regulatory Authority is available on the Internet at www.state.tn.us/tra. Whether a person wishes to learn about special programs that reduce unwanted fax advertisements and telephone solicitation calls, sign-up for telephone assistance programs, learn about telecommunications services and programs that aid the deaf, blind and speech impaired, or how to file a consumer complaint, it can all be found on the TRA's web site.

In addition, online visitors will have access to:

- ◆ Information on the various TRA Divisions
- ◆ Regulatory Cases
- ◆ Conference Agendas
- ◆ Press Releases
- ◆ TRA Rules & Regulations; Special Reports; Appeals and Petitions to the Federal Communications Commission; TRA Orders; and pertinent information related to natural gas pipeline safety.
- ◆ External web links to the National Association of Regulatory Utility Commissioners (NARUC); the Federal Trade Commission (FTC); the Federal Energy Regulatory Commission (FERC); American Gas Association, and others.

TENNESSEE REGULATORY AUTHORITY

ORGANIZATIONAL STRUCTURE



INTRODUCTION

The Authority has jurisdiction over public utilities including:

- Electric companies,
- Telephone companies,
- Water companies, and
- Natural gas companies.

Pursuant to T.C.A. § 65-4-104, statutory responsibilities include making rules for utility operations, utility rates, and regulating gas safety standards. Quasi-judicial powers allow the Authority to decide the granting of operating authority and to adjudicate conflicts and controversies arising from utility operations.

Financially independent of the General Fund, the Authority's operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

As of June 30, 2004, the Authority was budgeted for 81 positions. The Divisions and staff positions within each are as follows:

Directors	4
Directors' Staff	8
Administrative Staff	9
Consumer Services	15
Utilities Division	17
Gas Pipeline Safety	7
Information Systems	4
Legal Division	9
Competitive Markets and Policy Division	7
Universal Service Division	1
<hr/>	
81 staff positions	

Staff of the Authority includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information systems and computer specialists, a public information officer, and office support.

UTILITIES UNDER THE AUTHORITY'S JURISDICTION

Listed below are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2003.

Energy & Water	
Electric	3
Natural Gas Companies	6
Water & Waste Water	14
Telecommunications	
Competing Telephone Service Providers	118
Customer Owned-Coin Operated Telephone Providers	247
Incumbent Telephone Companies	18
Local Service Resellers	70
Resellers and Operator Service Providers	239
Gas Pipeline Safety	
Apartments*	10
Direct Sales*	24
Housing Authorities*	28
Intrastate Pipeline*	7
LNG Operators*	3
Mobile Home Parks*	4
Miscellaneous Master Meters*	6
Municipalities*	74
Utility Districts*	25
Total Public Utilities	884

* These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.

THE OFFICE OF THE CHAIRMAN



Pat Miller
Chairman

MISSION: *To coordinate the activities of the Authority and ensure that matters brought before it are handled in a fair and impartial manner, always moving toward improving services to the people served by the Authority.*

The Office of the Chairman serves as the chief administrative officer of the Tennessee Regulatory Authority with the power and duty to conduct the ordinary and necessary business in the name of the Tennessee Regulatory Authority. The duties of the Chairman's office include, but are not limited to the following:

- ◆ Serve as chief operating officer of the Authority responsible for supervision and hiring of all joint staff members within the limits of available funds authorized by Chapter 305 of the Public Acts of 1955.
- ◆ Recommend to the Authority such rules and policies as are necessary and appropriate to efficiently and economically provide for internal management of the Authority;
- ◆ Coordinate the preparation of the annual report to the general assembly as required by Tennessee Code Annotated, Section 65-1-211;
- ◆ Prepare and call the docket of items to be heard during each scheduled meeting of the Authority;
- ◆ Keep the official full and correct record of all proceedings and transactions for the Authority;
- ◆ Schedule the Authority's hearings;
- ◆ Prepare and distribute the Authority's Conference agendas;
- ◆ Coordinate and expedite matters pending before the Authority;
- ◆ Serve as the Authority's designated contact for all media inquiries;
- ◆ Administer, monitor and review the operating procedures of each division of the Authority to ensure that each fully executes in an efficient manner the separate duties and responsibilities assigned to each;
- ◆ Oversees the expenditure of funds and compliance with all applicable provisions of state and federal law in receipt and disbursement of funds;
- ◆ Prepare annual budget;

In order to carry out these functions and responsibilities, the Chairman's office consists of Dockets and Records, Personnel Office, Public Information, Fiscal and Administrative.

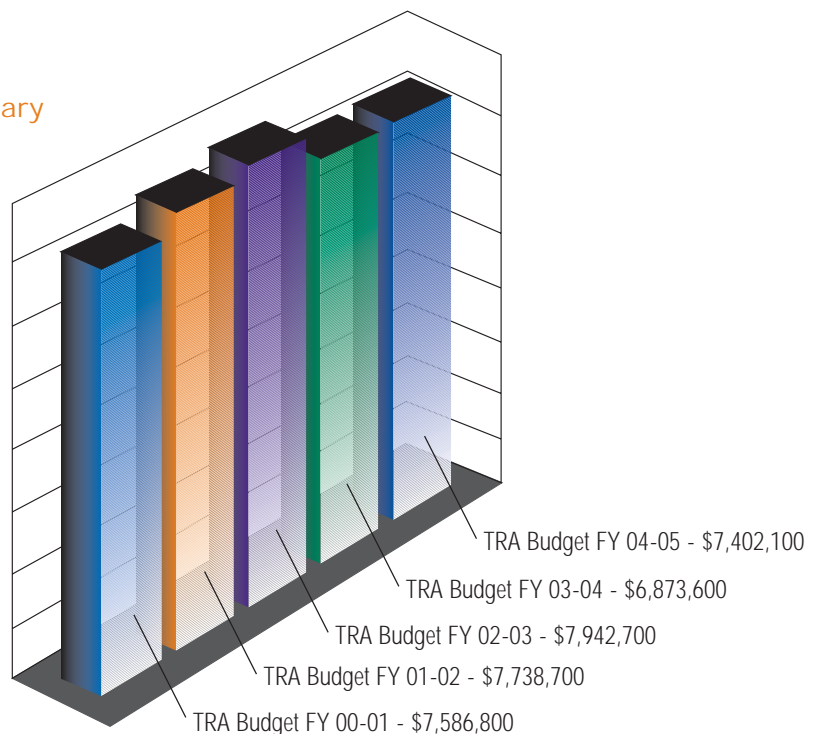
BUDGET SUMMARY APPROPRIATIONS, FEES AND EXPENSES

The TRA began fiscal year 2003-2004 (FY04) with a budget of \$6,873,600 which was a 13.5% decrease over the FY03 budget of \$7,942,700. While actual expenditures increased from \$6,633,556 for FY03 to \$6,867,796 for FY04, revenues for the same period increased 3.3% from \$7,219,554 to \$7,493,968 (these revenues exclude fees collected for the Telecommunications Devices Access Program ["TDAP"], the use of which is governed by specific legislation).

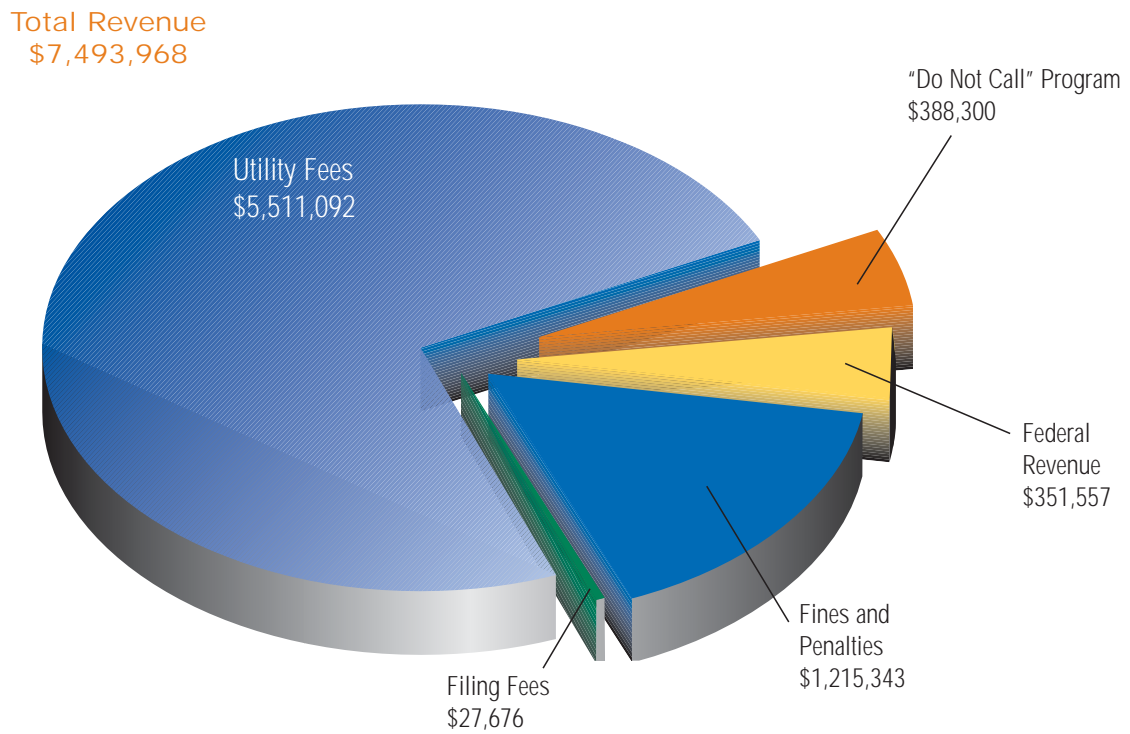
The majority of the revenues collected by the TRA are derived from utility inspection fees. These inspection fees are paid by the public utilities regulated by the TRA, are based on the annual gross intrastate revenues of those public utilities, and are used to defray the cost of regulation by the TRA. Since the inception of the TRA on July 1, 1996, inspection fees have increased an average of 3.79% annually. During FY04 \$5,511,092 of the total revenue received was from inspection fees. In addition to the inspection fee revenue, the TRA received \$351,557 in federal revenue, \$388,300 in registration fees from telemarketers for the "Do Not Call" program, \$1,215,343 in fines and penalties and \$27,676 in filing fees. All of the funds received by the TRA, except those collected for TDAP, are earmarked for the Public Utilities Account.

The proposed budget for FY05 is \$7,402,100, of which 100% will be funded by revenues received from sources other than the General Fund of the State of Tennessee. Therefore, the Authority is financially sound and is able to operate efficiently and productively within anticipated revenues.

Budget Summary



REVENUE OF TRA
FY 2003-2004



DOCKET ROOM AND AUTHORITY ACTIVITY

The Directors conduct the business of the Authority through regularly scheduled Authority conferences. The Official Minutes of the conferences are kept in the Docket Room and are available to the public for inspection at all times. The minutes show every action taken by the Authority and are prepared in a manner permitting immediate reference to the actions of the Authority. The Authority's Docket Room also maintains all filings made with the Authority and updates the official calendar of the agency. In addition to paper files, the Authority maintains an electronic fileroom on its web page that contains all documents filed since 1-1-99. The following information is available in the Docket Room:

- ◆ Docket Numbers
- ◆ Name of Applicants/Petitioners
- ◆ Subject Matter of Applications/Petitions
- ◆ Dates of Final Orders
- ◆ Summaries of Authority Action

VOLUME OF PROCEEDINGS BEFORE THE AUTHORITY FOR FISCAL YEAR ENDING JUNE 30, 2004

Docket Type	FY 2002	FY 2003	FY 2004	Comment
Contract Service Arrangements (CSAs)	394	460	0	
Interconnection/ Resale Agreements and/or Amendments	146	155	131	
Consumer Service & External Affairs Staff Investigations	18	7	8	
Number of Certificate of Public Convenience & Necessities Issued (CCNs)	17	21	26	
Company-Owned Coin Operated Telephones (COCOTs), Name changes, and Resellers	67	98	129	52 of these dockets were opened for cancellation or revocation of authority.
Telecommunications Tariffs/ Promotions Dockets	539	103	23	*2002 Tariff numbers are not different from docket numbers.
Transfer of Controls, Assets, Bankruptcies, Customer Letters	51	38	36	
Purchase Gas Agreements, Audits, Tariffs, CCN Amendments	84	100	36	
Arbitrations	-	-	15**	**Previously included under Miscellaneous
N11 / Pooling	-	-	15**	**Previously included under Miscellaneous
Rulemaking	-	-	2**	**Previously included under Miscellaneous
Miscellaneous		30	27	
Total	1316	1012	448	

*Decline represents strict enforcement of various statutes enacted by the General Assembly to protect consumers from miscellaneous forms of utility fraud.

**A new tariff numbering system was implemented in August 2002. The number of tariffs shown in this section represents those tariffs that were assigned a docket number and deliberated before the appropriate panel of Directors.

***Decline represents the number of bankruptcy reductions among utilities regulated by the Tennessee Regulatory Authority.

CONSUMER SERVICES AND EXTERNAL AFFAIRS DIVISION



Eddie Roberson
Chief

Mission: To ensure that consumers are aware of the changes in the utility sector and receive an adequate level of services from regulated companies by providing consumer outreach and monitoring the services utilities provide through conducting quality of service tests, initiating investigations, mediating consumer-utility disputes and enforcing the Authority's rules and regulations.

Duties:

The Consumer Services and External Affairs Division ("CSEAD") is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. One aspect of this responsibility is to investigate and mediate consumer complaints against regulated utilities pursuant to T.C.A. §§ 65-4-119 and 65-4-401 et seq. The CSEAD also performs other functions such as: serving as the consumer education/outreach office for the Authority; developing and implementing programs to educate the public on utility issues; implementing the Do Not Call Telemarketing statute through the registration of Telemarketing companies and maintaining the Do Not Call Register. The CSEAD also administers the Do Not Fax Program. This program is designed to control the unsolicited faxes.

The CSEAD also administers the Telecommunication Devices Access Program (TDAP). This program is designed to improve access to the telephone network by distributing equipment to assist individuals with disabilities.

The CSEAD conducts service hearings, community outreach meetings, and utility service audits, offers testimony at utility proceedings and recommends enforcement actions against utilities not complying with state law or the rules and regulations of the Authority. The CSEAD also monitors the operation of the Tennessee Relay Center for the hearing and speech impaired.

The CSEAD staff consists of a chief, deputy chief, two program administrators, one legal assistant, one manager external affairs, one administrative assistant, three administrative secretaries, and six consumer protection specialists.

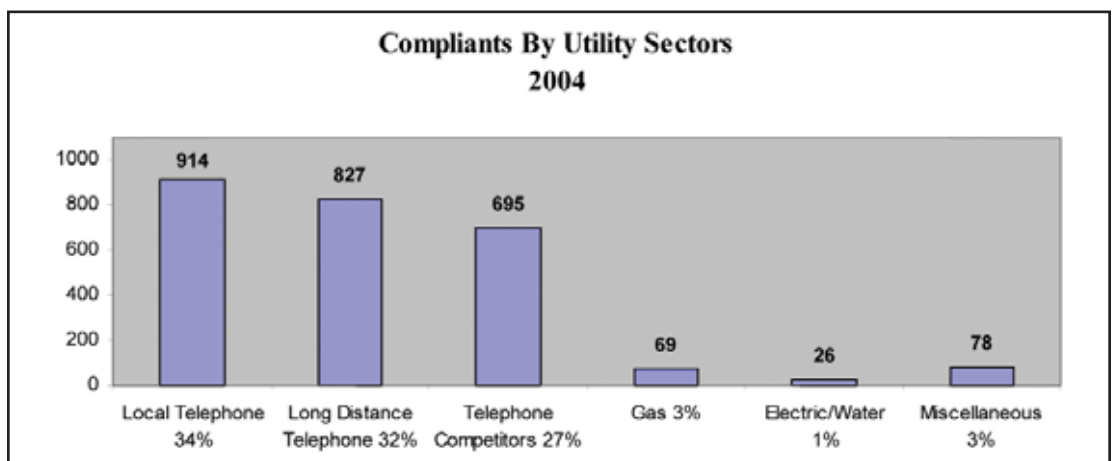
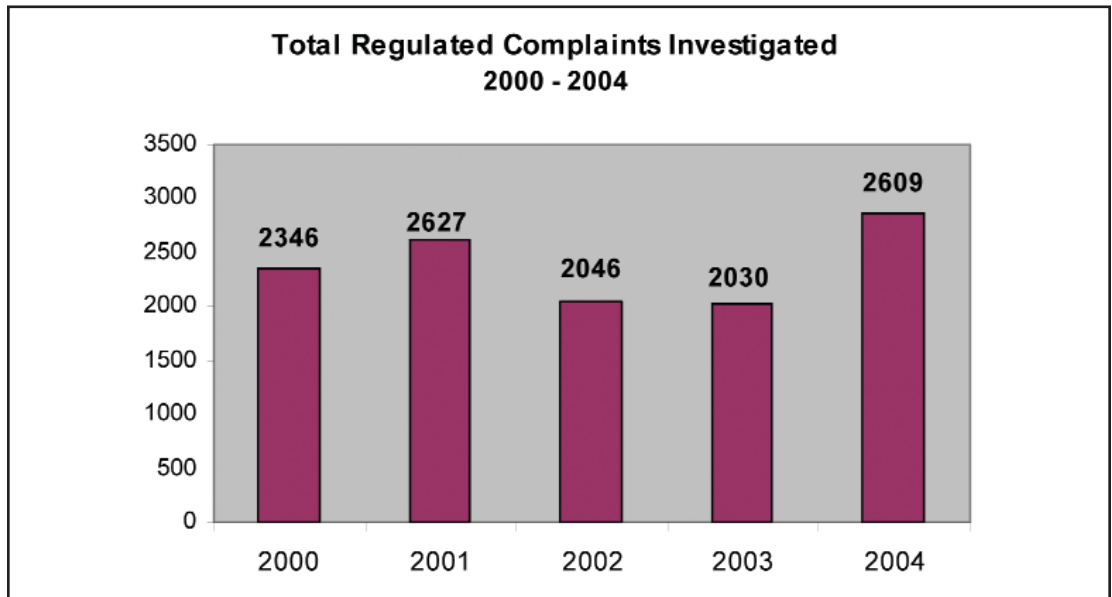
2003 Major Activities

- ◆ Investigated 2609 regulated consumer complaints against regulated utility companies.
- ◆ Assisted in securing refunds of \$164,940.55 to consumers as a result of investigations.
- ◆ Initiated enforcement actions resulting in \$1.79 million dollars in fines being assessed against regulated companies.
- ◆ Distributed 1487 devices costing \$197,319 to 1141 deaf, deaf-blind, hard of hearing, hearing and vision and speech impaired Tennessee residents.
- ◆ Investigated 238 complaints against telephone companies for the unauthorized switching a consumer's phone service. A total of \$18,842.95 was refunded to consumers from companies found not to have proper authorization to switch the customer's service. Sprint Long Distance had the most slamming complaints with 70 being filed against them, and AT&T Long distance was second with a total of 60 slamming complaints being filed.
- ◆ Administered the Link-up Telephone Assistance Program. This Program assists low- income citizens by reducing the installation charge to establish local telephone service. A total of 4,200 recipients saved \$80,655 utilizing the Link-up Tennessee program during the 2003 year.
- ◆ Administered the Lifeline Telephone Assistance Program. This Program assists low- income citizens by reducing their monthly telephone bill. A total of 51,964 recipients saved \$5,840,328 utilizing the Lifeline Tennessee program during the 2003 year.
- ◆ Entered into a settlement agreement with AT&T for alleged cramming violations of placing charges on consumer's telephone bills without permission. The settlement resulted in AT&T paying a \$175,000 fine to the TRA and refunding over \$313,000 in billing adjustments to approximately 29,000 Tennessee consumers.

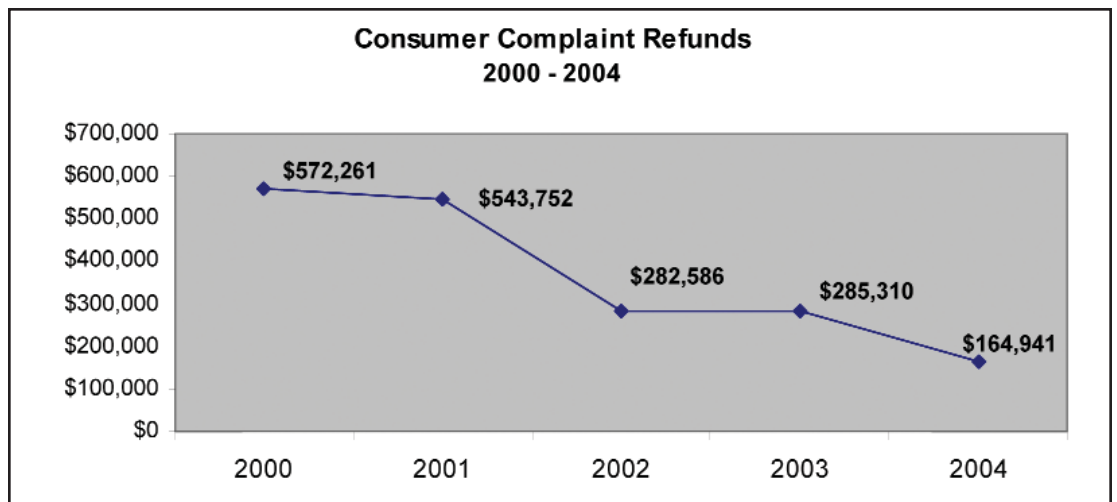
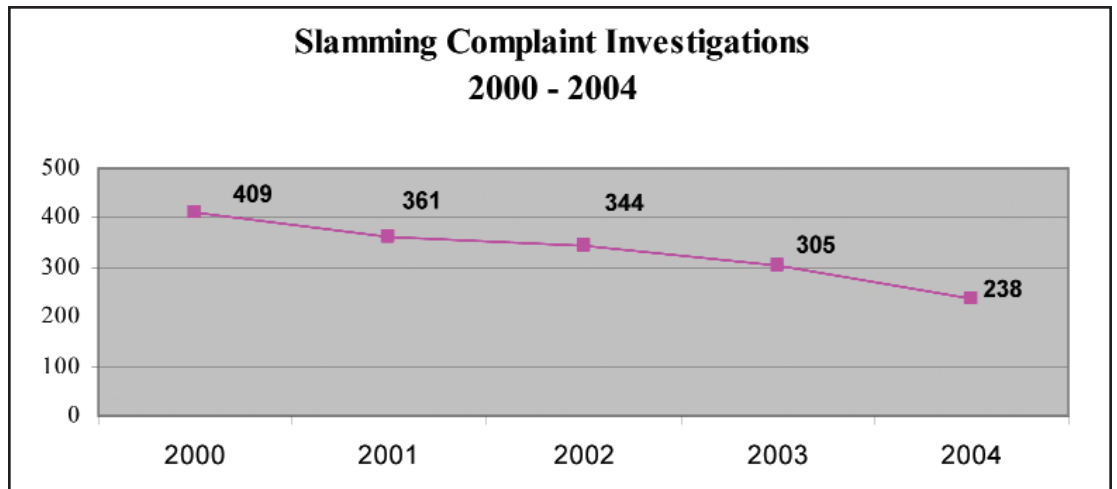
CONSUMER SERVICES AND EXTERNAL AFFAIRS DIVISION

- ◆ Reviewed the operations of the Tennessee Relay Center “TRC” to ensure that it is complying with the Authority’s rules and regulations. The TRC is a service designed to assist the speech and hearing impaired with the making and receiving of telephone calls. The TRC processes 768,731 calls during the year.
- ◆ Administered the Tennessee "Do Not Call" Program. For 2004, over 1,496,556 Tennesseans were registered with the Program. 688 telemarketers registered with the TRA. The TRA investigated 501 telemarketing complaints from consumers against telemarketing companies during the year.
- ◆ Administered the Tennessee "Do Not Fax" Program. The TRA has investigated 1206 fax complaints from consumers against unsolicited facsimiles for fiscal year 2004.

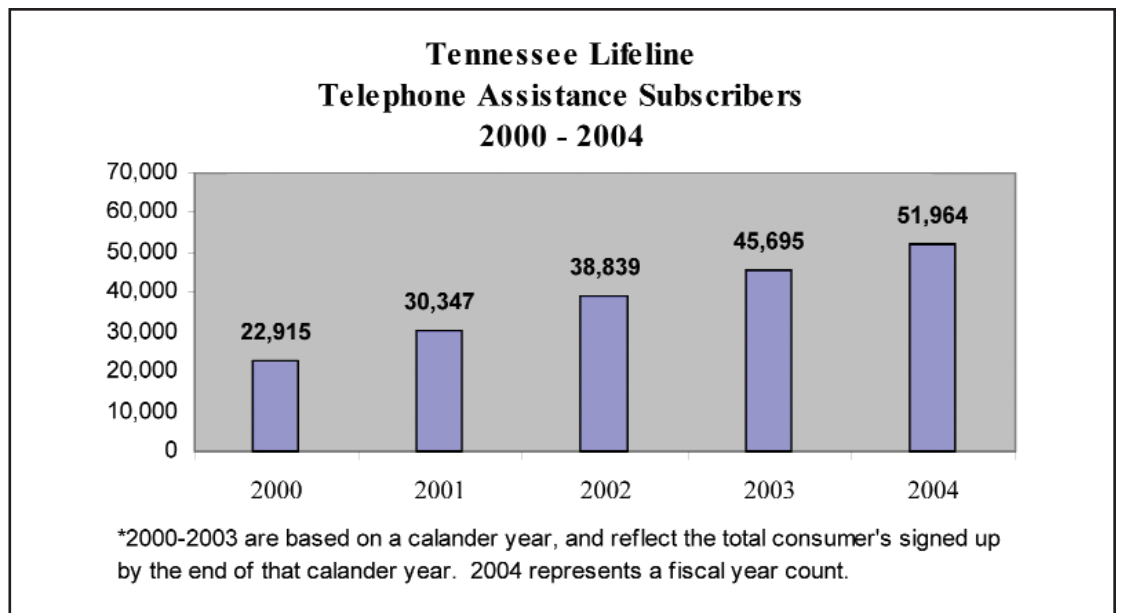
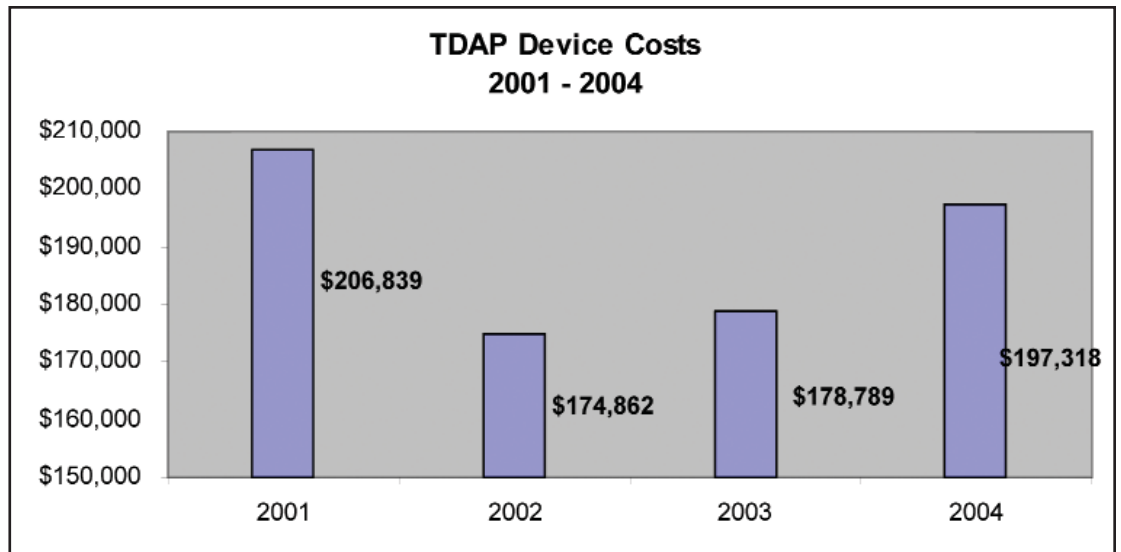
Categories of Complaints Investigated by Utility During 2004:



CONSUMER SERVICES AND EXTERNAL AFFAIRS DIVISION



CONSUMER SERVICES AND EXTERNAL AFFAIRS DIVISION



COMPETITIVE MARKETS AND POLICY DIVISION



Aster R. Adams
Chief

MISSION: To provide economic research, analysis, and advice to the Directors and staff of the Tennessee Regulatory Authority (TRA).

During the FY03-04, the Division which was originally known as the Economic Analysis Division was restructured twice. It became Economic Analysis and Market Monitoring Division in July 2003 and was changed to Competitive Markets and Policy Division as of June 1, 2004. The restructuring of the Division was designed to more closely align agency functions and staff with appropriate divisions in order to improve the efficiency and effectiveness of the TRA. This restructuring preserves the TRA's responsibilities pursuant to the present regulatory regime while beginning to take a more forward-looking approach to our work in the ever-changing telecommunications and electricity arenas.

In addition to the traditional economic analysis and research duties, the newly formed division is charged with the responsibility to monitor federal natural gas, electric and telecommunications policies at the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission (FCC), and federal legislation at the Congress. The division also has the responsibility to perform market analyses and investigations, research and other functions relative to all TRA regulated industries.

The Competitive Markets and Policy Division is responsible for investigating and formulating recommendations on cost, pricing, rate design, allegations of anticompetitive practices and other economic issues. The Division is responsible for identifying and analyzing market trends including monitoring and evaluating the impact of TRA decisions on market outcomes in the industries under the agency's purview. The division has primary responsibility for reviewing applications for approval of mergers, acquisitions, and the issuance of new financial instruments by public utilities. The Competitive Markets and Policy Division also provides auxiliary functions to other divisions by providing analysis and correspondence on economic matters in numerous proceedings coming before the Authority.

At the request of the Directors or staff, the Competitive Markets and Policy Division reviewed evidence and provided advice in more than 120 docketed proceedings before the TRA, including: the rate cases of Nashville Gas Company, Chattanooga Gas Company, Counce Natural Gas, Hickory Star Water Company, and various tariff changes. Division Staff participated in the Triennial Review Order proceedings before the agency.

The Division prepared comments addressing IP-Enabled Services Notice of Proposed Rulemaking (Voice over Internet Protocols – VoIP) which were filed with the FCC on the behalf of TRA Director Debi Tate. The Division continued to monitor the Standard Market Design and Regional Transmission Organizations proposed by the FERC. The Division also continued to monitor the entry of Kingsport Power Company and its parent American Electric Power Company into the PJM Interconnection RTO. The Division also continued to evaluate semi-annually the random assignment of dockets to voting panels of Directors, a system which was put in place as of July 1, 2002.

COMPETITIVE MARKETS AND POLICY DIVISION

The Division has primary responsibility for reviewing applications for the approval of mergers, acquisitions, transfers of authority and the issuance of new financial instruments by public utilities. Division staff reviewed 6 applications to issue securities, debt or other financial instruments and 23 petitions for corporate restructuring or transfer of control between July 1, 2003 and June 30, 2004. The Division also processed 8 petitions for name changes during this fiscal year.

The Division prepared a white paper on the Economics and Legal Implications of Tying Arrangements. Division Staff supervised three (3) student interns from Middle Tennessee State University. They were assigned research projects to complete during a semester of part-time work at the Authority. The student interns prepared research on "Investigating Tennessee's Potential for Equal Accessibility to Broadband for all Citizens;" "Promoting Broadband: Lessons from World Leaders;" and "A Report on Funding for Research and Development by The Gas Technology Institute."

Division staff also helped the Legal Division in reviewing and updating the TRA Rules for Name changes for Public Utilities, and rules on the Verification of Orders for Changes for Local and Long Distance Carriers (Slamming Rules).

The Division staff participated in professional meetings. Division staff attended meetings of the National Association of Regulatory Utility Commissioners and the Southeastern Association of Regulatory Commissioners addressing the changes in the telecommunications industry and changes in the energy industries, especially changes in the electricity sector. Division staff participated on the technical staff of NARUC's Triennial Review Implementation Project (TRIP) task force.

The Division continues to undertake strategic planning for the TRA by identifying likely future issues affecting the industries under TRA jurisdiction. Current projects include: monitoring the deployment of VoIP and Broadband over Power Lines (BPL) in Tennessee; monitoring the Triennial Review Order; monitoring energy legislation; and preparing a study of competition and universal service in rural Tennessee.

The Division introduced the TRA Market Monitor on August 13, 2003. This was a bi-monthly monitor of news regarding regulated industry and non-regulated related industry. Although the TRA Market Monitor is no longer issued, it was an attempt by the Division to better inform the TRA on issues affecting our daily business.

In the aftermath of the August 14, 2003 Electricity Blackout in the United States and Canada, the Division invited and coordinated presentations on Electricity Transmission Network Reliability before the Directors by Tennessee Valley Authority (TVA) on December 15, 2003 and by Kingsport Power Company together with American Electric Power Company on September 22, 2003. On April 26, 2004, the Division Chief updated the Directors on the Final Report on the August 14, 2003 Blackout.

The Division Chief regularly updates TRA Directors and Staff on Federal Energy Policy developments; on the Final Report on the August 14, 2003 Blackout in the United States and Canada; and on the implementation of recommended changes affecting the electricity industry.

COMPETITIVE MARKETS AND POLICY DIVISION

The Division Staff participated in the organization two workshops with national implication: Natural Gas Symposium on August 19, 2003 and Voice over Internet Protocol Forum on April 30, 2004. The Division also participated in a series of public awareness workshops throughout the state to provide natural gas consumers with energy conservation tips, special bill payment plans and such financial assistance programs as the Low-Income Home Energy Assistance Program. The Division Chief organized such public meetings in Chattanooga and Johnson City. Division Staff updates TRA Directors on the volatility of natural gas supply and prices and on the regulatory policies to assure affordable and stable gas prices for residential customers. The Division Staff also participated in the workshop on County-wide Calling.

The Division Staff coordinated a presentation by experts from the NRRI on the organization subject matters of interest to state commissions (October 6, 2003 Authority Conference) and was part of the Staff Investigative Team that successfully investigated Delta Phone, Inc. and EZ Talk Communications, Inc. for the violations of the anti-slamming statute and rule.

Finally, the Division coordinated a tour of TVA on June 3, 2004. The TVA Tour was hosted by Director Skila Harris. TRA Directors and Staff who attended were briefed on the process of siting transmission line projects and toured the Transmission Operations Center and the Trading Floor. The discussions centered on the reliability of the transmission system, bulk power trading to relieve congestion, and the generation capacity in relation to the total power demand. Future such tours are planned to visit TVA wind turbines and other alternative sources of electricity.

GAS PIPELINE SAFETY DIVISION



Glynn Blanton
Chief

MISSION: Protect the public and environment from accidental release of natural gas or hazardous liquid products by pipeline. This protection is provided by a technologically advanced compliance program that promotes educational standards for industry and contributes to the health and security of the citizens of Tennessee.

COMPLIANCE PROGRAM

The Gas Pipeline Safety Division (GPSD) enforces the Minimum Federal Safety Standards with jurisdiction over all natural gas distribution operators in Tennessee. Private, municipal, utility district, and other natural gas distribution companies collectively operate over 34,000 miles of intrastate pipeline and three (3) liquefied natural gas facilities. These 181 distribution operators represent 198 individual inspection units and serve more than 1.1 million customers. Tennessee's largest natural gas distribution system is Memphis Light, Gas & Water, serving 320,000 customers. GASCO-Byrdstown is the smallest, serving thirty.

The GPSD works diligently to protect the citizens of Tennessee from accidental release of natural gas by performing periodic inspections of an operator's gas facilities, records, and construction projects. Minimum Federal Safety Standards are the backbone of the GPSD inspection program. Citations and fines are issued when operators are found to be in non-compliance with TRA rules and regulations. The GPSD has the authority under TCA § 65-28-108 to levy civil penalties in the amount of \$10,000 per violation per day to a maximum of \$500,000 per series of violations. The maximum penalty levied to date against a Tennessee natural gas operator is \$184,000, occurring in 1989.

Calendar year 2004 marks the eighth year the GPSD has submitted a Section 60105 agreement and been approved by the United States Department of Transportation Office of Pipeline Safety (OPS) to carry out a program to enforce the safety regulations contained in Parts 191, 192, 193 and 199 of the

Tennessee Natural Gas Operators

Operator Type	Number of each
Liquefied Natural Gas (LNG)	3
Master Meter *	42
Municipal	74
Direct Sale	24
Intrastate Pipeline	7
Private	6
Utility District	25
Total	181

* Master Meter Systems includes Mobile Home Parks, Apartments and Housing Authorities

GAS PIPELINE SAFETY DIVISION

Code of Federal Regulations. These regulations are Enforcement Procedures, Safe Transportation of Natural Gas or Hazardous Liquids by Pipeline, Liquefied Natural Gas Facilities, and Drug & Alcohol Testing. The Section 60105 agreement provides federal matching funds for the program up to fifty percent of actual program expenses. The federal funds are distributed through a grant-in-aid reimbursement provision included in the agreement and are tied to the Division's federal performance evaluation score. A performance level of 90% or greater insures full fifty percent funding. In 2004, the GPSD received a score of 94.

The GPSD chief and five staff members hold degrees in various disciplines of engineering. All are experienced and specially trained in the field of natural gas. The effectiveness of the GPSD is centered upon the staff's professional and technical education and training. Each is required within three years of employment to complete and pass nine one-week courses provided by the Federal Transportation Safety Institute (TSI). These courses provide compliance information, inspection techniques, integrity management, and enforcement procedures necessary for the inspection of a natural gas distribution system or liquefied natural gas facility. This training is available only through the federal government. Each engineer is required to maintain eligibility status in accordance with federal requirements.

Integrity Management Program - Transmission Line Only

On December 15, 2003, the Federal Office of Pipeline Safety (OPS) issued a final rule that requires operators with transmission lines to develop an integrity management program for gas transmission pipelines located where a leak or rupture could do the most harm and could impact high consequence areas (HCAs). The rule requires gas transmission pipeline operators to perform ongoing assessments of pipeline integrity, to improve data collection, integration, and analysis, to repair and remediate the pipeline as necessary, and to implement preventive and mitigative actions. All operators who identify HCAs would be required to assess the integrity of the pipeline in those locations by performing one of three tests: in-line pigging (the process of running a device through the pipe to check for leakage or corrosion), pressure testing, or direct assessment (uncovering the pipeline and reviewing the condition of the pipe). This rule affects seven Tennessee natural gas distribution operators who operate 420 miles of pipeline above twenty percent of the specified minimum yield strength. The GPSD will include in their inspection audits a review of the operator's integrity management program.

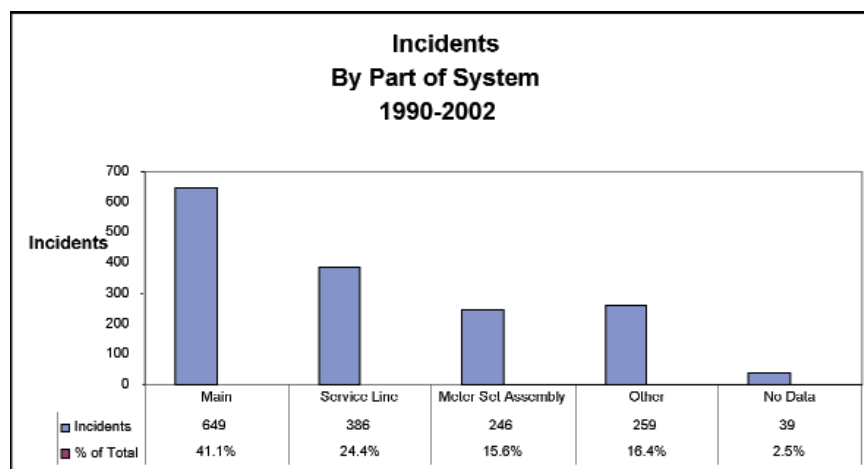
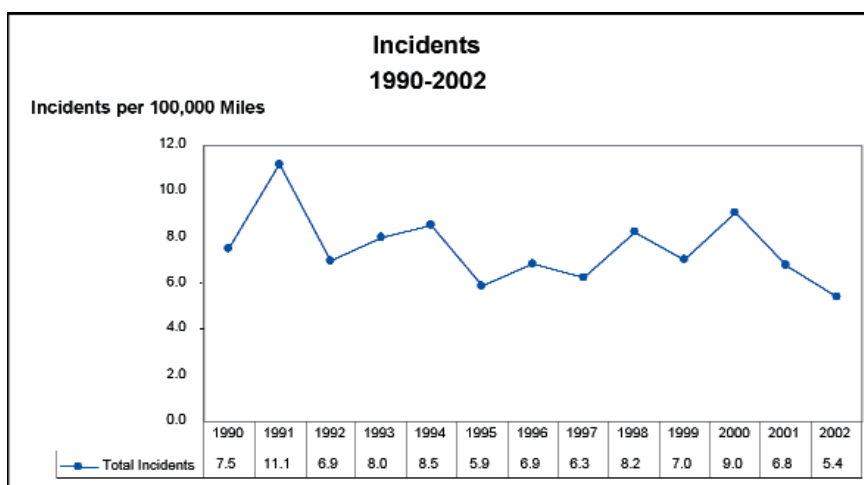
Integrity Management Program - Distribution Systems



The Distribution Integrity Government Industry Team, on which the chief of the division serves, is evaluating the safety and integrity performance of the nation's natural gas distribution infrastructure. The purpose of the study is to provide information to all stakeholders on safety performance based on an analysis of data and a survey on industry practices and perspectives on unique characteristics of the distribution sector of the gas pipeline industry. The results are expected to provide a basis for the industry and regulators to examine the need for potential changes in both industry and regulatory practices for the nation's natural gas distribution infrastructure.

GAS PIPELINE SAFETY DIVISION

Below are two charts showing the number of incidents occurring on distribution systems and specifically which part of the system is being damaged. The final report will be released December 2004.



ACTIVITIES AND ACCOMPLISHMENTS

Public Education/Awareness Programs for Operators-

The Pipeline Safety Improvement Act of 2002 (PSIA) mandated that all operators of gas and liquid pipelines expand and enhance their existing public education program, in addition to the existing regulations. The PSIA also required that operators use The Public Education Program Self-Assessment form and file it with GPSD by December 17, 2003.

GAS PIPELINE SAFETY DIVISION

The resulting data on the form indicated that 91% of the operators conduct a single public education program to cover all of their systems; 69% had determined that modifications to their current programs were necessary; and 59% had already begun making modifications to their current program. When questioned how long it is expected before a program will be fully developed and implemented if the operator did not currently have a public education program, 60% indicated one year. The responses are considered very positive in that a large percentage of operators have recognized and identified the need for modifications to their programs.

Partners In Protecting Everyone-

The GPSD, Tennessee Gas Association, and Tennessee One-Call System, Inc. combined resources in the development of Partners In Protecting Everyone (PIPE) program. The program targets first responders, emergency personnel and other individuals who work or live next to a pipeline. The purpose of the program is to discuss gas pipeline and distribution safety, damage prevention, and how to handle a pipeline emergency. The program is a great success with 1,932 participants at 26 meeting sites across the state. The program will be continued in the future and may be used as a model for Tennessee gas operators in meeting public awareness program requirements.

Nashville Gas Company PA11 Pipe Waiver, Installation, Testing-

On June 17, 2002, the Tennessee Regulatory Authority (TRA) granted a waiver to Nashville Gas Company of Sections 192.121 and 192.231(a) of the MFSS. The waiver allowed for the installation and operation of Polyamide11 (PA11) pipe at a higher operating pressure in a Class 3 location. The approved waiver was sent to the U.S. Department of Transportation Office of Pipeline Safety and was accepted on August 26, 2002. TRA Docket Number 01-01133 order required Nashville Gas Company to excavate and remove selected sections of the 2-inch PA11 pipe after twelve months and again at twenty-four months to evaluate pipe material aging. The aging tests, including quick burst, long term sustained pressure, tensile, and apparent tensile, would be performed by Gas Technology Institute (GTI).

On May 18, 2004, twelve months after the PA11 pipe installation, the GPSD witnessed approximately 10 feet of the pipe removed and marked. The ten-foot section was transferred to Gas Technology Institute (GTI) on May 19, 2004. The test data and report provided on September 23, 2004, indicated moisture levels in the sample section were 1.21 percent. One specimen was prepared for "quick burst" testing; six specimens were die cut for tensile testing; and three specimens were prepared for long term sustained pressure testing. Each test indicated that the material surpassed the allowable requirements and was performing as expected. Another pipe sample will be removed from the site after twenty-four months for testing and evaluation. The results of these tests may allow the natural gas industry to install the material and operate at a higher pressure than is allowed under current safety regulations.

Federal Government Operator Qualification Database-

The GPSD completed the federal government computer-based training on operator qualification (OQ) protocols. Evaluation of operator qualification written plans and programs for compliance with Minimum Federal Safety Standards began January 2004. Data from the inspection audits is entered into the federal government's Operator Qualification Database. All Tennessee operators will be fully evaluated by December 2004, well ahead of the federal government's suggested three-year time frame. The database results will assist the federal government in evaluating the effectiveness of the Operator Qualification rule and indicate if additional changes need to be made.

GAS PIPELINE SAFETY DIVISION

Underground Utility Damage Prevention-

Prevention of damage to underground natural gas facilities continues to be a top priority for the GPSD. The GPSD received a Damage Prevention Grant from the Federal Office of Pipeline Safety in the amount of \$3,211. The grant will be used to increase awareness and enforcement of Tennessee's Underground Utility Damage Prevention law. This year's focus group includes local judges and law clerks. Prior years' awareness campaigns have targeted local law and codes enforcement personnel. Several informal meetings will be conducted using promotional items (including note pad portfolios,



stainless steel coffee mugs, and long sleeve shirts) to spread the message of the national Dig Safely.® campaign. The national Dig Safely.® campaign four-part message is Call before you dig; Wait the required time; Respect the marks; Dig with care. The national campaign has been very successful in reducing damages to all underground facilities.

Operator Training-

During the fiscal year, the GPSD conducted seventeen training seminars with attendees from fifty Tennessee natural gas systems, three Mississippi systems, and one Tennessee contractor. These seminars consist of PowerPoint presentations, videos, classroom discussions, and testing on safety issues related to performance of job tasks. To date, thirty-six PowerPoint presentations have been developed regarding such topics as firefighting techniques, recognizing emergency conditions, excavation and shoring safety, and controlling accidental release of gas. A total of 280 individuals have attended the seminars with 269 successfully completing the course work. This represents a participant success rate of 96 percent. This continuing initiative is the result of a federal mandate for gas pipeline operators to evaluate their personnel to ensure that they have the knowledge, skills and abilities necessary to perform covered tasks while operating a natural gas pipeline facility. This initiative will continue as new employees are added to the workforce and operators reevaluate personnel on an ongoing basis.

Welding Program-

Natural gas pipeline welders are tested annually or every six months, depending upon the conditions under which they are qualified. Gas Safety staff reviews welding test results and issues welding qualification cards. The GPSD is responsible for ensuring that all Tennessee natural gas operators and their contractors employ welders who are qualified by an established TRA approved welding procedure.



Natural Gas Operator Inspections-

The table below shows the type and number of inspections that are performed on Tennessee's local distribution systems. Each jurisdictional operator is inspected at least once annually. More often, as many as two to three different inspections may be performed on an operator in one year. Inspections help to ensure that all operators are complying with the Minimum Federal Safety Standards (MFSS) by maintaining records, making reports, updating their operations and maintenance plans, and promptly repairing all hazardous leaks. Several types of inspections are conducted to check for compliance with all sections of the MFSS. Each operator's drug and alcohol program is reviewed annually to ensure that required testing is being conducted. The following chart shows the number and type of inspections conducted between July 2003 and June 2004.

GAS PIPELINE SAFETY DIVISION

Number of Inspections Performed July 2003 - June 2004

Inspection Type	Number
Standard	101.0
Specialized	79.0
Follow-Up	51.0
Construction	10.0
Incident	3.0
Training	17.0
LNG	2.0
Total	263.0

Violations and Civil Penalties-

The violations cited by the GPSD against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violation(s) and is given sixty days from receipt of the written notice to correct any deficiencies that may have warranted a citation. A follow-up inspection is scheduled after the sixty-day time period to ensure that the operator is taking action to correct these violations. Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with TCA §65-28-108. There were 107 violations cited and 131 violations corrected during this fiscal year. (Violations corrected include those cited from previous years.)

Tennessee Code Annotated §65-28-108 states: "Any person who violates any provisions of the adopted Minimum Federal Safety Standards is subject to a civil penalty not to exceed ten thousand dollars (\$10,000) for each such violation for each day that such violation persists, except that the maximum civil penalty shall not exceed five hundred thousand dollars (\$500,000) for any continuing series of violations." No civil penalties were levied against natural gas operators in this fiscal year.

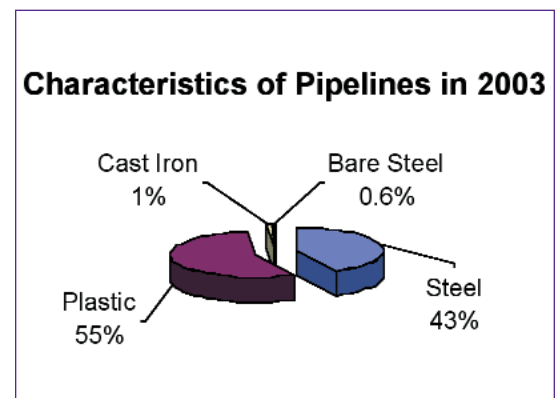
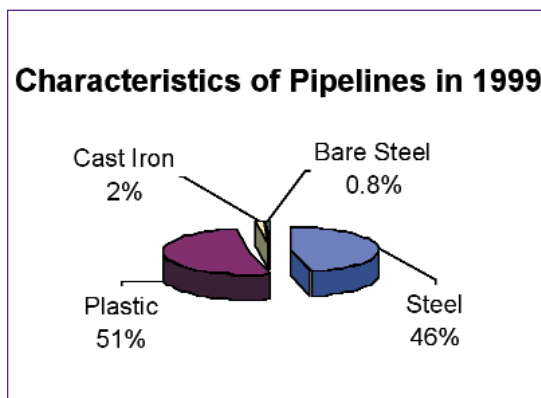
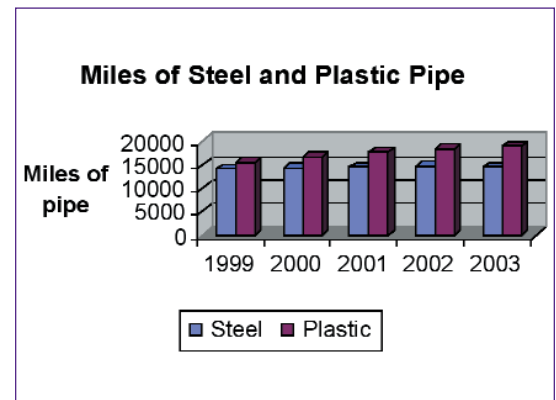
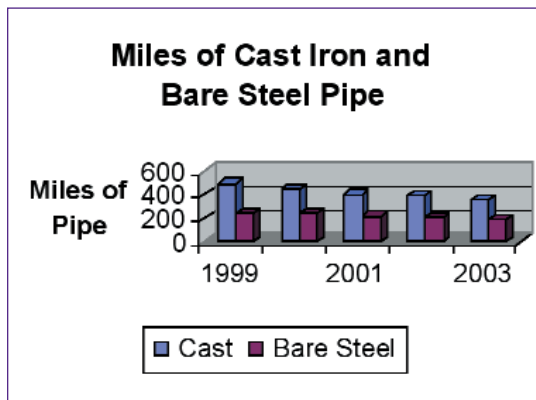
Natural Gas Incidents-

The Minimum Federal Safety Standards §191.3 defines an incident as any of the following: 1. An event that involves a release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) A death, or personal injury necessitating in-patient hospitalization; or ii) Estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, 2. An event that results in an emergency shutdown of an LNG facility, 3. An event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2. Three reportable incidents were called in to the GPSD in the past fiscal year. The reportable incidents resulted in five personal injuries.

GAS PIPELINE SAFETY DIVISION

Bare Steel and Cast Iron Replacement Programs-

The GPSD continues its efforts to reduce and eliminate all poorly coated steel, bare steel and cast iron pipe in Tennessee. Discussion and approval of a replacement plan with a local distribution system in 1992 has eliminated 356 miles of bare or cast iron pipe. Efforts are under way to reduce additional miles of pipe with the use of a risk assessment plan. This initiative includes the replacement of cast iron and bare steel based on a point system. Each pipe section is ranked according to type, pressure, location, wall thickness, etc. Points are assigned on each type of ranking and the total amount is called Section points. This is the first component of the program. The second component of the program is the Hazard points. Hazard points are assigned on each section of pipe containing a leak, corrosion and material defect. Hazard and section points are added to produce a Total point assignment for each section of pipe. Total point assignments are then reviewed and ranked from the highest to the lowest number. Points having the highest number above a median number which is normally a score of 70 are considered in a replacement program. The replacement program schedules the removal of the pipe sections in the coming year. The program is reviewed and updated yearly to maintain a level of safety to the public and insure ageing pipelines are replaced before a hazardous condition appears. This process has successfully reduced miles of bare and cast iron pipe in Tennessee each year. The GPSD goal is to have all bare and cast iron material removed or replaced in the shortest time frame with the least cost to customers. The charts below show the progress being made.



INFORMATION SYSTEMS DIVISION



Tracy Stinson
Chief

MISSION: The mission of the Information Systems Division (ISD) is to provide, support, and protect hardware and software computer systems used by the staff of the Tennessee Regulatory Authority.

VISION: Listen, Learn, Respond

The Information Systems Division's (ISD) goal is to develop and implement systems that will support the Agency's objectives and to effectively and efficiently manage the agency-wide automated information resources. The ISD staff consists of an Information Resource Support Specialist II and an Information Resource Support Specialist III.

Duties of the Information Systems Section:

- ◆ Provide information system resources for the TRA.
- ◆ Manage the yearly Information Systems budget
- ◆ Develop the three year Information Systems Plan.
- ◆ Provide LAN administration.
- ◆ Setup and maintain LAN security.
- ◆ Purchase and install PC systems as needed.
- ◆ Setup and maintain PC security.
- ◆ Evaluate or develop new software and hardware systems as required.
- ◆ Coordinate information resource training.
- ◆ Develop and maintain databases.
- ◆ Work with the fiscal office on hardware and software inventory controls.
- ◆ Provide service to agency's computer hardware.
- ◆ Develop and maintain the TRA web site

The ISD has developed three software systems which are used on a daily basis by TRA staff. The Do Not Call system, developed in 2000, is used by the TRA's Consumer Services division and Fiscal section as an aid to implementing the state solicitor Do Not Call law. The system performs the following functions:

- ◆ Registering, error scanning, and storing Tennessee citizen telephone numbers.
- ◆ Registering Tennessee citizens of the Federal Do Not Call program.
- ◆ Query of citizen telephone numbers.
- ◆ Registration of solicitors.
- ◆ Query of solicitors.
- ◆ Tracking of solicitor registration fees.
- ◆ Generation of monthly Do Not Call list.
- ◆ Email of monthly Do Not Call list to registered solicitors.
- ◆ Various reports.

INFORMATION SYSTEMS DIVISION

The Docket Management system, developed in 2002, maintains electronic versions of the Authority's regulatory dockets. The docket management system performs the following functions:

- ◆ With operator assistance, scans documents filed with the Authority.
- ◆ Assigns a docket number to new cases.
- ◆ Stores the docket and filing information.
- ◆ Queries the docket and filing information.
- ◆ Builds an electronic version of the docket in HTML and dynamically using ASP.
- ◆ Sets dockets for a hearing (agenda).
- ◆ Produces the hearing agenda in hard copy.
- ◆ Stores information on companies regulated by the TRA.
- ◆ Queries company information.

The Case Management system, developed in 2004, works closely with the Docket Management system to capture a journal style view of a docket from creation to closing. With information feed from the Docket Management system and TRA staff, the Case Management system provides detailed information on when and why a docket was opened, who is working the docket, what action each assigned division has taken on the docket, when the docket is set for hearing and the result of the hearing.

The Case Management system, in conjunction with the Docket Management system, provides TRA staff quicker access to docket information, reduces the amount of time staff spends on calls for docket information, reduces paper costs to the state, and increases efficiency. This aids the Authority in achieving its goals and meeting its responsibilities to the citizens of Tennessee.

LEGAL DIVISION



Richard Collier
General Counsel

MISSION: To provide the Authority with sound and timely legal advice, effective counsel in the deliberative process, and zealous representation before state and federal agencies, reviewing courts and the General Assembly.

It is the responsibility of the Legal Division to provide in-house counsel to the Directors of the Authority. Attorneys from the Division also represent the Authority and the Directors in their official capacities before the Chancery Courts, Tennessee Court of Appeals, the Tennessee Supreme Court and in the Federal Courts. The Legal Division represents the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. Members of the Legal Division often serve as Hearing Officers in contested cases and prosecutors in enforcement actions before the Authority. Division Attorneys are responsible for bill analysis as requested by the Legislative Fiscal Review Committee. They also assist in drafting rules to be promulgated by the Authority and prepare orders reflecting actions of the Directors in specific cases.

Accomplishments

During the past fiscal year 448 dockets were opened requiring action by the Authority. Members of the Legal Division provided continuing research, document preparation and counsel to the Directors and staff in most of these dockets. The Legal Division also prepared 632 orders in tariff matters and contested cases for issuance by the Authority.

Members of the Legal Division provided assistance to the Authority in rendering decisions on BellSouth's and United Telephone-Southeast's 2003 price regulation filings. The Legal Division also assisted in the preparation of rules establishing name change and customer notification requirements for telecommunications service providers. The Legal Division assisted in the drafting of legislation pertaining to tariff filing requirements, Do-Not-Fax violations and adaptive devices assisting disabled persons using telecommunications equipments.

The Legal Division participated in hearings that were conducted on applications for certificates of public convenience and necessity and approval of franchise agreements filed by competing local exchange carriers and gas companies and in proceedings setting rates for gas, water and waste water treatment utilities. Members of the Legal Division also served as Hearing Officers and provided counsel to the Authority in complaints between Competing Local Exchange Carriers and Incumbent Local Exchange Carriers. The Legal Division provided counsel to the Authority in the commencement of dockets and ongoing proceedings relating to the Federal Communications Commission's Triennial Review Order.

The Legal Division took action to enforce Tennessee's Do-Not-Call, Do-Not-Fax, slamming and cramming statutes, with the assistance of the Consumer Services Division, by commencing show cause proceedings against non-compliant companies. In January 2004, the Authority entered an order against a reseller of prepaid local telephone service assessing a penalty in excess of \$1,000,000, the largest fine in agency history. In June 2004, the Authority approved a settlement agreement requiring a Competitive Local Exchange Carrier to pay restitution and to apologize to approximately 40,000

LEGAL DIVISION

Tennessee consumers who received erroneous charges on their monthly telephone bills. The Legal Division continued its participation with the Division of Gas Pipeline Safety in providing educational programs regarding Tennessee's Underground Utility Damage Prevention and assisted with several accident investigations.

Significant case activity for the 2003-2004 fiscal year included:

◆ TRA

Implementation of the Federal Communications Commission's Triennial Review Order - 90 Day Proceeding (Docket No. 03-00490).

Implementation of the Federal Communications Commission's Triennial Review Order- 9 Month Proceeding-Switching (Docket No. 03-00491).

Triennial Review Order-9 Month Proceeding-Hot Cuts (Docket No. 03-00526).

Triennial Review Order-9 Month Proceeding-Loop And Transport (Docket No. 03-00527).

Universal Service for Rural Areas – The Generic Docket (Docket No. 00-00523).

Application of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for an Adjustment of Its Rates and Charges, for Approval of Revised Tariffs and Approval of Revised Service Regulations (Docket No. 03-00313).

Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers (Docket No. 03-00118).

Petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Gas Company, and United Cities Gas Company, a Division of Atmos Energy Corporation for a Declaratory Ruling Regarding the Collectibility of the Gas Cost Portion of the Uncollectible Accounts Under the Purchase Gas Adjustment (“PGA”) Rules (Docket No. 03-00209).

Petition of United Way of Metropolitan Nashville for Allocation of an N11 Number (Abbreviated Dialing Code) (Docket No. 03-00383).

Workshop to Gather Information from the Telecommunications Industry Related to Preventing Violations of Tenn. Code Ann. § 65-21-114, County-Wide Calling Statute (Docket No. 03-00502).

Tariff to Reduce Rates in Accordance with UTSE's 2003 Price Regulation Filing - Tariff Number: 2003-1121 (Docket No. 03-00576).

LEGAL DIVISION

Petitions for Arbitration of unresolved issues associated with the attempt of wireless providers to negotiate interconnection and reciprocal compensation agreements with members of the Tennessee Rural Independent Coalition (Consolidated Docket Nos. 03-00585, 03-00586, 03-00587, 03-00588 & 03-00589)

Petition of BellSouth Long Distance, Inc. to Provide Competing Local Telecommunications Services (Docket No. 03-00602).

Show Cause Proceeding Against EZ Talk Communications, Inc. (Docket No. 03-00632).

Tennessee Coalition of Rural Incumbent Telephone Companies and Cooperatives Request for Suspension of Wireline to Wireless Number Portability Obligations Pursuant to Section 251(f)(2) of the Communications Act of 1934, as Amended (Docket No. 03-00633)

Petition of Memphis-Shelby County Public Library and Information Center to Designate 211 Service for Non-Profit Community Information and Referral Services Within the City of Memphis (Docket No. 04-00008).

Petition of Chattanooga Gas Company for Approval of Adjustment of Its Rates and Charges and Revised Tariff. (Docket No. 04-00034).

TRA Rulemaking to Amend Chapter 1220-4-11-.05(b), known as the Do-Not-Call Rule (Docket No. 04-00071).

TRA Rulemaking Chapter 1220-4-1-.08, Name Changes for Public Utilities (Docket No. 04-00072).

Petition of Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. for Approval of Negotiated Franchise Agreement with the Metropolitan Government of the City of Nashville and Davidson County, Tennessee (Docket No. 04-00097).

Petition of Tennessee Department of Transportation for Allocation of an N11 Number (Abbreviated Dialing Code) (Docket No. 04-00159).

Alleged Violations of Tenn. Code Ann. § 65-4-125(b) and Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.58, by: AT&T Communications of the South Central States, LLC (Docket No. 04-00172).

LEGAL DIVISION

◆ OTHER COURTS

Consumer Advocate v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in BellSouth Telecommunications, Inc. Tariff to Introduce Welcoming Reward Program, Tariff No. 2003-017, TRA Docket No. 03-00060.

US LEC of Tennessee, Inc. v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in Complaint of US LEC of Tennessee, Inc. Against Electric Power Board of Chattanooga, TRA Docket No. 02-00562.

Consumer Advocate v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in BellSouth Telecommunications, Inc. Tariff to Establish Welcoming Rewards Promotion, Tariff No. 2003-1366, TRA Docket No. 03-00625.

Consumer Advocate v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA decision in Promotion to Introduce BellSouth Integrated Solutions Program, Tariff No. 2003-596, TRA Docket No. 03-00512.

Consumer Advocate v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA decision in Tariff to Establish the Wireless Answers Promotion, Tariff No. 2003-1036, TRA Docket No. 03-00554.

Consumer Advocate v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA decision in Tariff to Establish Consumer Wireless Combined Bill Reward Offer, Tariff No. 2003-1379, TRA Docket No. 03-00624.

BellSouth Telecommunications, Inc. and United Telephone-Southeast, Inc. filed Petitions for Review in the Tennessee Court of Appeals and the U.S. District Court related to the TRA's decision regarding line sharing and line splitting in the case, Generic Docket to Establish UNE Prices for Lines Sharing Per FCC 99-355, and Riser Cable and Terminating Wire as Ordered in TRA Docket 98-00123, TRA Docket 00-00544.

UTILITIES DIVISION



Darlene K. Standley
Chief

Mission: To provide the Directors of the TRA with technical assistance and financial analysis applicable to utility issues facing Tennessee. The Division's detailed analysis provides the necessary information to enable the Directors to make decisions on issues related to the development of competitive markets and the preservation of affordable prices for utility services in Tennessee.

During the past year the Energy and Water and Telecommunications Divisions operated separately. Because of the inherent similarities in the functions performed, the Divisions were merged in August 2004, forming one Utilities Division. The Utilities Industry is significant to the citizens of Tennessee. Generating more than \$5 billion in revenues annually, telecommunications is one of the largest and fastest growing industries in Tennessee. As primarily monopoly providers, regulated Energy and Water industries serve over 450,000 consumers and generate more than \$590 million in annual revenues.

Competition was introduced into the local telephone markets with passage of both the State and Federal acts in 1995 and 1996, respectively. After reviewing the competitive environment of telecommunications within the nation, the FCC revised the competitive requirements regarding provision of network elements by BellSouth to its competitors with its passage of the Triennial Review Order in August 2003. A portion of this order was vacated on March 2, 2004 by the United States Court of Appeals for the District of Columbia resulting in the issuance of interim rules and a proposed rulemaking in August 2004. The coming year will determine the effects in the competitive market as a result of these actions.

In this revolutionized telecommunications environment, technology is the driving force for changing the competitive landscape of telecommunications. Faster transmission of data through digital subscriber lines, cable modems, wireless, satellite services and voice over Internet Protocol are emerging as primary modes of telecommunications. Last year the TRA held a Voice Over Internet Protocol Workshop to facilitate the sharing of information with participants about technology and the possible use of the Internet as a replacement for plain old telephone service. Electric Utilities are viewed by many as the natural provider of the third broadband pipe into homes and businesses through broadband over power lines (BPL). With this comes a dramatic change in the role of regulators. Historically, the primary responsibility of telecommunications regulators was to set rates and prices based on accounting data and financial forecasts. This responsibility has evolved to one of developing a competitive marketplace while maintaining affordable prices to consumers. The state and federal legislative tools afforded the TRA enable it to serve as referee, arbitrator and mediator to resolve disputes between competitive carriers.

UTILITIES DIVISION

The primary issue facing regulators of energy is the rising cost of natural gas. Tennessee consumers have no control over the national price of gas, yet this cost represents approximately 76% of their monthly gas bills. Much debate is taking place on a national level regarding rising gas prices in the United States and what government's role should be in this volatile market. Furthermore, Congress has a revised National Energy Bill before it that could also impact state regulation and the resulting prices that consumers pay.

The TRA has focused much of its efforts this past year on educating consumers on efficiency measures to mitigate the effects of these high prices. The TRA has also worked closely with gas utilities to provide additional relief for those customers experiencing the most hardship in paying their heating bills. As part of this effort, the TRA sponsored a one-day symposium in August 2003, to address the subject of possible natural gas shortages and rising prices for the upcoming winter. State and federal natural gas experts along with representatives from the local gas utilities and area community service organizations participated in this forum.

The Utilities Division continually monitors and audits gas costs that are passed on to consumers to make sure that the gas utilities recover no more than their actual costs. The TRA also analyzes all rate adjustment requests by the utilities to ensure that consumers bear no more of the burden than necessary.

The Sewer Industry is also showing signs of competitive alternatives. During the last year the TRA has certificated approximately fourteen areas for wastewater companies. Meetings have been held with Tennessee's Department of Environment and Conservation to discuss the environment and regulatory concerns with wastewater permits and certificates. In addition to public health, one of the primary goals of the TRA is to ensure that the consumers of Tennessee are protected in the future from rising costs and potential abandonment of service. Working closely with the Department of Environment and Conservation, the TRA is moving forward with educational forums to address the issues facing regulators of this industry today.

A strong financial background coupled with a thorough knowledge of telecommunications and energy and water are the necessary attributes which enable this division to meet its responsibilities. The Utilities Division now consists of sixteen employees with diversified backgrounds including four CPAs, two engineers and one economist. This diversification in the Division provides the needed expertise to prepare the detailed analysis of the issues before the TRA. The Division works closely with the Competitive Markets and Policy, Consumer Services and Legal Divisions in formulating recommendations on energy, water and telecommunications issues in our state.

The 2004 fiscal year was an active year for the Utilities Division. Below is a list of some of the major activities of the Utilities Division during the fiscal year.

UTILITIES DIVISION

Telecommunications Section

The consumers of Tennessee are still seeing significant competitive activity in the business segments of the local telecommunications markets. As of June 30, 2004, fifty (50) facilities-based competitors were offering telecommunications services in Tennessee. These fifty (50) competitors serve 696,218 lines in the state, an increase of 24% over last year's totals. As of June 30, 2004, new market entrants had invested \$616 million in equipment and facilities in Tennessee since the passage of these new laws.

◆ Establishing a local switching rate pursuant to state and federal law

- The TRA initially set a switching rate in 1997. With the issuance of the FCC's Triennial Review Order and subsequent Interim Rules these rates are no longer applicable. Therefore, during the BellSouth and ITC^DeltaCom arbitration, the TRA established an interim switching rate under Section 271 of the federal telecom act and state law. This decision is currently under appeal/consideration by the FCC and state courts.

◆ Newly enacted state statute applicable to incumbent local exchange telephone companies

- After over a year of discussion regarding tariff filing requirements and its effect on the competitive environment of local exchange companies, the Tennessee Legislature enacted Senate Bill No. 2737 setting forth streamlined procedures for telecommunication tariffs. This bill became effective July 1, 2004, and the TRA has established a rulemaking to enable it to carry out the legislative intent of the bill.

◆ Agreements to Interconnect the Networks of New Entrants with the Networks of Existing Telephone Companies.

- For multiple providers of telephone services to exist, there must be compatibility between providers so that customers of the different providers may call each other. Both the State and Federal telecommunications acts require all providers of telecommunications to interconnect their facilities with the facilities of other carriers. During the fiscal year, the Utilities Division reviewed 131 interconnection agreements including amendments, ten (10) Commercial Mobile Radio Service interconnection agreement including amendments and eleven (11) resale agreements including amendments.

◆ Certification of Competitive Carriers

- Analyzed and approved the application of twenty-two (22) companies requesting designation as facility-based competitive local exchange carriers. The Utilities Division also reviewed the applications of five (5) resellers of local telephone service and fifteen (15) resellers of long distance service during the fiscal year.

◆ Review of Contract Service Arrangements

- One of the ways that incumbent local exchange carriers have responded to the impending local telephone competition is by offering special pricing arrangements to selected customers. These arrangements, offered to large and medium-sized business customers, provide discounted prices to customers who commit to continue using BellSouth's service for a specified period of time, typically two to four years. In the 2004 fiscal year, the Utilities

UTILITIES DIVISION

Division reviewed 860 BellSouth contract service arrangements for compliance with state statutes and TRA rules.

◆ **Tariff Review**

- Reviewed 751 tariff filings by telecommunications companies to introduce new services or to revise the rates, terms and conditions of existing services.

◆ **N11 Assignments**

- United Way of Metropolitan Nashville and Memphis-Shelby County Library & Information Center were granted 211 certification. The Department of Transportation was granted 511 certification.

◆ **Pay Telephone Certification**

- Registered thirty-two (32) payphone providers and 3,903 payphones during the fiscal year.

◆ **Interconnection Complaints.**

- Resolved numerous interconnection disputes between competing carriers (CLECs) and incumbent providers. In most cases, the Authority was asked to interpret the language and requirements of the interconnection agreement signed by the parties.

◆ **Telecommunications In Tennessee**

The Tennessee Regulatory Authority (TRA) regulates the rates and service quality of investor owned utilities in Tennessee including telecommunications providers, energy providers and water and sewer utilities. (Not municipalities, cable, Internet or wireless providers).

- In 2002 (the latest year for which data is available), total telecommunications revenue in Tennessee was \$5.4 billion, a 57% increase over 1995 telecommunications revenues.
- As of March 31, 2004, 93.6% of Tennessee households had telephone service, (national average: 94.2%).
- It is estimated that 68% of Tennessee households now have Internet access (national average: 73%).
- At December 31, 2003, 16.5% of Tennessee households had high-speed (broadband) Internet access (national average: 19.5%).
- As of December 31, 2003, 51% of Tennesseans had wireless/mobile phones (national average: 54%).
- As of June 30, 2004, Tennessee had 104 companies providing local telecommunications services in Tennessee including 28 incumbent providers (18 investor owned and 10 telephone co-operatives), 50 competitive local exchange carriers ("CLECs") and 26 resellers of local telephone services. Note: Incumbent providers are those companies providing local telecommunications services prior to passage of the Telecommunications

UTILITIES DIVISION

Act of 1996 on February 8, 1996, while CLECs are those companies who began offering facilities-based local telecommunications subsequent to February 8, 1996.

- BellSouth and Sprint/United Telephone are the two largest incumbent providers in Tennessee. AT&T Communications and MCI Metro Access are the CLECs with the most lines in Tennessee (as of June 2004).
- At June 2004, CLECs were providing service in 92 of Tennessee's 95 counties but 71% of the CLEC lines are in the state's four largest metropolitan areas.
- 75% of the lines provided by CLECs in Tennessee are business lines while 25% are residential lines (as of March 2004).
- The majority of CLECs in the state provide service by purchasing unbundled network elements on a wholesale basis from the incumbent carrier.
- Since 1996, CLECs report they have invested \$616 million in facilities in Tennessee (as of June 2004).
- Three municipal electric utilities are providing telecommunications in Tennessee: Chattanooga Electric Power Board, Memphis Light, Gas and Water (through Memphis Network) and Jackson Energy Authority.
- In August 2002, the TRA adopted a comprehensive set of performance mechanisms to monitor BellSouth's wholesale operations to determine if BellSouth is providing service to competitors comparable to what it provides to itself. Included in these mechanisms are penalties for non-compliance with agreed to standards and benchmarks. Penalty Payments are made to the TRA by BellSouth after three months of continued non-compliance with the standards and benchmarks. Through June 2004, these payments have amounted to \$1,819,162.
- To conserve telephone numbers and reduce the need to add area codes, Tennessee has ordered that telephone numbers be assigned to carriers in 1,000 number blocks instead of the 10,000 number blocks previously permitted by the FCC. Tennessee presently has 6 area codes and has not needed to add an area code since September 2001.
- By state law, all telephone calls originating and terminating within the same county are required to be completed without long distance charges (Tenn. Code Ann. § 65-21-114).

Energy and Water Section

Tennessee Code Annotated Sections 65-5-201 through 65-5-209 gives the Authority the responsibility of setting or approving the rates and prices charged by public utilities operating within the State of Tennessee. The Energy and Water Section assists the Authority in carrying out this responsibility by evaluating periodic rate and price adjustment requests filed by utilities or other interested parties.

Tariffs (43)

Each utility under TRA jurisdiction is required to submit a schedule of its rates, rules and regulations in the form of a tariff. Petitioners may file proposed revisions from time to time in order to adjust their tariffs. During Fiscal Year 2004, the Division reviewed fifteen (15) tariff filings and twenty-three (23) Purchased Gas Adjustments (PGAs) filings and five (5) electric Fuel Clause Adjustments.

UTILITIES DIVISION

Audits (12)

There are four (4) basic types of audits performed by the Utilities Division. These audits are: Compliance, Actual Cost Adjustment (ACA), Weather Normalization Adjustments (WNA) and Performance Incentive Plan (IPA) audits.

- 1) **Compliance Audits** - Compliance audits are performed to monitor the utility's compliance with applicable laws, orders and policies of the Authority, as well as utility accounting operations to insure compliance with the Uniform System of Accounts (USOA) prescribed by the National Association of Regulatory Utility Commissioners (NARUC) and the Federal Energy Regulatory Commission (FERC). The Energy and Water Section schedules and conducts these audits as resources permit. During Fiscal Year 2004, the Division conducted no compliance audits.
- 2) **ACA Audits** (6) - The Authority's Rule 1220-4-7-.02 permits a gas utility to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers. The Purchased Gas Adjustment (PGA) Rule, which was adopted July 1, 1992, is the mechanism used to accomplish this recovery and consists of three major components:
 - ◆ Actual Cost Adjustment (ACA)
 - ◆ Gas Charge Adjustment (GCA)
 - ◆ Refund Adjustment (RA)

The ACA is the difference between the revenue billed customers by means of the GCA and actual costs paid to suppliers as reflected in the Deferred Gas Cost account. The rule requires the utility to submit a filing each year detailing the transactions in the Deferred Gas Cost Account. The Division Staff audits this filing to determine that the utility is following all the rules, regulations, and directives adopted by the Authority. This provides the Authority assurance that the utility has not over-collected or under-collected gas costs from its customers.

Each year, an ACA audit is conducted on the six gas distribution utilities under rate jurisdiction of the TRA: Atmos Energy Corporation, Chattanooga Gas Company, Nashville Gas Company, Counce Natural Gas, Gasco Distribution Systems and Red Boiling Springs Gas Utility. During the 2004 fiscal year, the Division Staff reviewed gas invoices for these utilities totaling approximately \$242,560,650. There was also a review of all adjustments made to the Deferred Gas Cost accounts, the underlying supporting documentation, the calculation of gas cost recoveries and compliance with PGA filings, including ongoing Refund Adjustments, and the calculation of interest on account balances. Sample bills were recalculated for each month of the audit period to assure that the correct tariff rates and gas cost adjustments were being passed on to the customers. Audit results and recommendations are detailed in an audit report on each utility.

- 3) **WNA Audits** (3) - In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year to eliminate unusual fluctuations. One part of normalizing revenues in the test year is the adjustment of weather related sales volumes to reflect "normal" weather, which is calculated based on the previous thirty years' weather data. Since "normal" weather rarely occurs, the customer bills can fluctuate dramatically due to weather

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changes from month to month, and gas companies' revenues likewise fluctuate, causing them to earn more or less than their authorized rate of return. In recognition of this fact, the TRA has approved a Weather Normalization Adjustment (WNA) Rider, to be applied to residential and commercial customer bills during the winter months.

The Division conducts audits each year of the WNA Rider as it is applied to the three major gas companies: Atmos Energy Corporation, Chattanooga Gas Company, and Nashville Gas Company. In order to meet the objectives of the audit, the following are compared on a daily basis:

- a) The company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- b) The company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- c) The company's calculations of the WNA factors to the TRA's calculations.

The Division also audits a sample of customer bills during the WNA period to verify that the WNA factor has been correctly applied to the bills. Results of the audits and any recommendations are detailed in the annual audit report for each company.

During the 2004 fiscal year, WNA related revenues for the three gas utilities amounted to \$3,786,125 WNA revenues surcharged.

- 4) **IPA Audits (3)** – The Performance Incentive Plan mechanism was approved by the TRA and is designed to provide incentives to gas utilities in a manner that will produce rewards for customers and shareholders alike while improving the gas procurement process. All savings benefit the consumers to various degrees. The Incentive Plan replaces the after-the-fact reasonableness or prudence reviews of gas purchasing activities formerly required by the Purchased Gas Adjustment Rule. The Division audits these filings in a manner similar to the audits conducted for the ACA filings. During Fiscal Year 2004, incentive audits were conducted on all major gas utilities.

Certificate of Convenience and Necessity (CCN) Applications (18)

CCNs are required by law for each public utility operating in Tennessee. During the 2003 fiscal year, eighteen (18) CCN Energy and Water applications were reviewed by the TRA.

Annual Report Audits (23)

Twenty-three (23) energy & water utilities file annual reports with the TRA. The Division audits these annual reports to ensure the completeness of their financial data.

Activities

The Division continues to participate in various training opportunities to ensure we remain knowledgeable of governmental and industry trends in the electric, gas, water and sewer industries. We also meet regularly with industry representatives to encourage the sharing of ideas on how to improve customer service and operating efficiencies.

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AVERAGE NUMBER OF CUSTOMERS SERVED BY ELECTRIC, GAS, WATER, WASTEWATER UTILITIES WITHIN TENNESSEE DURING 2003

COMPANY	Residential	Commercial	Industrial	Other	Total	Total Operating Revenues	Annual Avg. Bill Residential
GAS UTILITIES:							
Chattanooga Gas Company	51,812	8,353	69	4	60,238	\$ 89,551,421	\$815.13
Counce Natural Gas	113	34	2	-	149	\$ 190,143	\$464.56
Gasco Distribution Systems of TN	486	105	8	-	599	\$753,323	\$263.73
Nashville Gas Company	132,975	16,426	179	-	149,580	\$210,173,476	\$882.76
Atmos Energy Corporation	198,232	15,959	406	522	125,119	\$171,775,369	\$739.52
RBS Gas Utility, Inc.	210	15	-	-	225	\$ 293,227	\$572.15
ELECTRIC UTILITIES:							
Entergy Arkansas, Inc.	22	5	4	-	31	\$ 20,411	\$522.77
Kentucky Utilities Company	5	-	-	-	5	\$ 2,443	\$488.60
Kingsport Power Company	39,979	5,254	195	164	45,592	\$ 86,572,133	\$849.85
WATER/WASTEWATER UTILITIES:							
Antioch Water Company (W)	243	-	-	-	243	\$ 69,110	\$284.40
Aqua Utilities (W)	184	-	-	-	184	\$ 30,492	\$166.17
Aqua Utilities (S)	149	-	-	-	149	\$ 15,423	\$103.86
Cartwright Creek (S)	475	-	-	-	475	\$ 223,949	\$354.02
Foothills Water Properties (W)	93	-	-	-	93	\$ 38,702	\$416.15
H C Sewerage Company	-	3	-	-	3	\$ 18,312	\$ -
Hickory Star Water Company (W)	83	-	-	-	83	\$ 52,274	\$629.81
IRM Utility, Inc.	-	2	-	-	2	\$ 1,310	\$ -
Lynnwood Utilities (S)	672	-	-	-	672	\$ 360,875	\$517.75
Newport Resort Water System (W)	48	-	-	-	48	\$ 18,903	\$393.81
Tennessee Wastewater Sys., Inc. (S)	452	-	-	-	452	\$ 206,479	\$382.17
Total Environmental Solutions Inc. (W)	88	-	-	-	88	\$ 53,263	\$598.61
Shiloh Falls Utilities (S)	109	-	-	\$ -	109	\$ 30,494	\$205.76
TN American Water Co. (W)	60,645	8,372	191	712	69,920	\$ 30,541,760	\$199.67
TN Water Service, Inc. (W)	526	-	-	-	526	\$ 197,714	\$369.06

"W" = Water / "S" = Wastewater

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Telecommunications Service Providers Pertinent Data (Current As of June 30, 2004)

- Incumbent Local Exchange Carriers	18
- Competitive Local Exchange Carriers (Facilities-Based)	118
- Telephone Cooperatives (Not regulated by the TRA)	10
- Local Service Resellers.....	70
- Long Distance Resellers	205
- Long Distance Companies (Facilities-Based)	3
- Pay Telephone Providers.....	247
- Pay Telephones.....	15,007
- Interconnection Agreements between Competitive Local Exchange and Incumbent Carriers	287
- Resale Agreements between Local Resellers and Incumbent Carriers	147
- Interconnection Agreements between Commercial Mobile Radio..... Services (CMRS) and Incumbent Carriers.	90
- Resale Agreements between Commercial Mobile Radio Service..... (CMRS) and Incumbent Carriers.	6

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Competitive Local Exchange Companies Certified by the TRA (As of June 30, 2004)

1. 360networks (USA)
2. Access Integrated Networks
3. Access Point
4. ACN Communication Services
5. Adelphia Business Solutions of Nashville
6. Adelphia Business Solutions Operations
7. Aeneas Communications
8. Alec, Inc.
9. Alltel Communications
10. American Farm Bureau
11. American Fiber Systems
12. AT&T Comm. of the So. Central States
13. BellSouth BSE
14. Ben Lomand Communications
15. Birch Telecom
16. BLC Management
17. Brooks Fiber Communications of TN
18. Budget Phone
19. Bullseye Telecom
20. Business Telecom
21. Cat Communications International
22. CenturyTel Solutions
23. Charter FiberLink-Tennessee
24. Ciera Network Systems
25. Cinergy Communications
26. Citizens Telecommunications Company
27. CityNet Tennessee
28. Cogent Communications of Tennessee
29. Comm South Companies
30. Communigroup of Jackson
31. Computer Network Technology Corp.
32. Covista
33. Cypress Communications Operating Co.
34. DIECA Communications
35. Dixie Net Communications
36. DSLnet Communications
37. Eagle Communications
38. East Tennessee Network
39. Electric Power Board of Chattanooga
40. Excel Telecommunications
41. Global Connection Inc. of TN
42. Global Crossing Local Services
43. Global NAPs Gulf
44. Granite Telecommunications
45. ICG Telecom Group
46. IDS Telcom
47. Image Access
48. Intermedia Communications
49. Intrado Communications
50. Iris Networks
51. ITC^DeltaCom Communications
52. Jackson Energy Authority
53. Kentucky Data Link
54. KMC DATA
55. KMC Telecom III
56. KMC Telecom V
57. Knology of Tennessee
58. LecStar Telecom
59. Level 3 Communications
60. Lightcore, a CenturyTel Co.
61. Lightyear Network Solutions
62. LoadPoint Telecommunications
63. Madison River Communications
64. MCImetro Access Transmission
65. MCI WorldCom Communications
66. McLeod USA Telecomm. Services
67. Memphis Networx
68. Metro Teleconnect Companies
69. Metropolitan Fiber Sys. of Tennessee
70. Momentum Telecom
71. MountainNet Telephone Company
72. NA Communications
73. NationNet Communications
74. Navigator Telecommunications
75. Network Telephone Corp.
76. New Edge Network
77. New South Communications
78. NEXTLINK
79. NOS Communications
80. Now Acquisition Corp.
81. Now Communications
82. NUI Telecom
83. Nu Vox Communications
84. OnePoint Communications, Georgia
85. OneStar Communications
86. Premiere Network Services
87. Progress Telecom
88. Qwest Communications Corp.
89. Qwest Interprise America
90. SBC Telecom
91. Southern Digital Network
92. Southwestern Bell Comm. Services
93. Sprint Communications Company
94. Talk America
95. TCG MidSouth
96. TeleConex
97. Telepak Networks
98. Tele-Sys
99. Teligent Services
100. Tennessee Telephone Service
101. Texas HomeTel
102. The Information Bureau
103. The Other Phone Company
104. Time Warner
105. U-Dial of Tennessee
106. US Carrier Telecom
107. US LEC of Tennessee
108. US Telepacific Corp.
109. Utilities Commission
110. VarTec Telecom
111. Vertex Communications
112. Vo2 Networx
113. Volunteer First Services
114. Williams Communications
115. XO Tennessee
116. Xspedius, LLC
117. Xspedius Mgt. Co. of Chatt.
118. Z-Tel Communications



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